



WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

AUGUST 2, 2010

SUPPLY CONCERNS DRIVE CROP PRICES

Corn, soybean, and wheat prices have experienced an impressive rally over the past month. From the lows in late June to the high on August 2, December 2010 corn futures rallied nearly \$.75, November 2010 soybean futures rallied \$1.40, and September wheat futures rallied \$2.55.

The increase in prices was triggered by the June 30 USDA reports showing smaller than expected June 1 domestic inventories of corn and soybeans and smaller than expected planted acreage of corn. June 1 wheat inventories were larger than expected, but prices increased based on prospects for smaller crops outside the U.S. Large year-over-year declines in wheat production are expected in Russia, Kazakhstan, and Canada. Last year, those three countries exported 1.6 billion bushels of wheat, or 41 percent of the total non U.S. exports.

Crop prospects in Russia and Kazakhstan have continued to deteriorate and the crop in western Europe came under some late stress. Foreign wheat production could be down as much as 4 percent this year. In addition to the ongoing concerns about world wheat production, there are some concerns about the yield potential for the U.S. corn and soybean crops. While crop condition ratings have remained high, the impact of the unusual combination of extremely wet and warm conditions in June and July in the Corn Belt are not clear. Total June and July rainfall in the Corn Belt was the second largest in the past 50 years; only 1993 had a larger total. The two-month average temperature in the Corn Belt was the fourth highest of the past 50 years. This combination of extreme rainfall and temperatures had not been observed in the previous 50 years. Additional crop yield concerns are being generated by the very warm start to August and the prospects for additional stress on the crops in the Delta region.

Supply concerns have come at a time of generally strong demand for U.S. crops. With just under 5 weeks left in the 2009-10 marketing year, it appears that both corn and soybean exports could be slightly larger than the current USDA forecasts. Corn exports need to average 38 million bushels per week during August to reach the forecast of 1.95

billion bushels. The average for the six weeks ended July 29 was 40.1 million. For soybeans, weekly exports during August need to average 4.8 million bushels to reach the forecast of 1.46 billion bushels. The average for the six weeks ended on July 29 was 7 million.

While soybean exports could exceed the USDA projection, the 2009-10 marketing year domestic soybean crush may fall a bit short of the projected 1.745 billion bushels. The crush for July and August needs to total 250.9 million bushels to reach that projection, 2.3 million more than crushed in July and August of 2009. Monthly crush was less than in the previous year in April, May, and June. While the crush in July and August last year was very small, a year-over-year increase is not expected this year.

The 2010-11 U.S. wheat marketing year began on June 1. Wheat export inspections during the first 8.4 weeks of the year were reported at 148 million bushels, 31 million more than exported during the same period last year. Unshipped export sales as of July 22 stood at 188 million bushels, 45 million more than on the same date last year. The largest year-over-year increase in exports of U.S. wheat is in the hard red winter class, with larger sales to all major buyers. Wheat exports are off to the start needed to meet the USDA projection of a 135 million bushel increase from exports of a year ago.

The price rally of the magnitude of the past month is difficult to sustain. A continuous flow of supportive fundamental information is required for prices to continue to move higher. In particular, the strength in wheat prices may be difficult to sustain. Even with further reductions in estimated world crop size, year ending stocks will remain fully adequate. If relatively high prices persist into the fall of the year, an increase in planted acreage in the northern hemisphere would be expected.

Near term prospects for corn and soybean prices are tied closely with prospects for the U.S. crops. Expectations about crop size fall in a wide range. The USDA's August *Crop Production* report will provide an important benchmark. The current price rally has been large enough to justify some sales in front of that report.

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